

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2000-366-A - ORDER NO. 2007-418

JUNE 7, 2007

IN RE: Application of Chem-Nuclear Systems, LLC)	ORDER IDENTIFYING
for Approval of Allowable Costs (1st Filing))	ALLOWABLE COSTS
- Application for Adjustment in the Levels of)	
Allowable Costs and for Identification of)	
Allowable Costs (2nd Filing and After))	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (“the Commission”) by way of the Application of Chem-Nuclear Systems, LLC, a Division of Duratek, Inc. (“Chem-Nuclear” or “the Company”), dated September 26, 2006 (the “Original Application”). By its Original Application, Chem-Nuclear sought an adjustment in the levels of certain allowable costs for Fiscal Year 2005-2006, which the Commission had previously identified and for the identification of allowable costs for Fiscal Year 2006-2007 associated with the operation of the Company’s regional low-level radioactive waste disposal facility located in the vicinity of Barnwell, South Carolina (“the Barnwell Facility”). The Application was submitted pursuant to the pertinent provisions of the Atlantic Interstate Low-level Radioactive Waste Compact Implementation Act (the “Act”), which is codified as S.C. Code Ann. § 48-46-10, et. seq. (1976), as amended. On February 2, 2007, the Company filed and served an Amended Application which proposed certain revisions in the information contained in the Original

Application to reflect the Company's reconciliation of certain issues with the South Carolina Office of Regulatory Staff ("ORS").

The Act establishes a comprehensive economic regulatory program and governs the relationship between the State of South Carolina and operators of facilities for the disposal of low-level radioactive waste. Among other things, the Act provides for South Carolina's membership in the Atlantic Low-level Radioactive Waste Compact (the "Compact") and authorizes the manner in which this State participates in the Compact with Connecticut and New Jersey, the other member states. S.C. Code Ann. § 48-46-20 (Supp. 2006).

The Act fixes a schedule of annually declining maximum volumes of low-level radioactive waste that a disposal facility in South Carolina may accept from generators within and without the Compact's member States. S.C. Code Ann. § 48-46-40(A)(6)(a) (Supp. 2006). In addition, the Act empowers the South Carolina Budget and Control Board (the "Budget and Control Board") to fix the rates that an operator of a disposal facility in South Carolina may charge a generator for disposal of the generator's low-level radioactive waste. The Act fixes fees for various purposes and provides for the disposition of revenues produced by the disposal operations of facilities subject to the Act. Chem-Nuclear operates the only disposal facility for low-level radioactive waste in South Carolina.

Under the Act, the Commission has the responsibility to identify the "allowable costs" of a disposal facility operator. S. C. Code Ann. §48-46-40(B)(1) (Supp. 2006). "Allowable costs" are "costs to a disposal site operator of operating a regional disposal

facility” and they “are limited to costs determined by standard accounting practices and regulatory findings to be associated with facility operations.” S. C. Code Ann. § 48-46-30(1) (Supp. 2006). The Act provides that “allowable costs” expressly include the costs of certain specifically identified activities necessary in the operation of a low-level radioactive waste facility. S.C. Code Ann. § 48-46-40(B)(3)(a) through (n) (Supp. 2006). Section 48-46-40(B)(3)(n) also provides that “allowable costs” include “any other costs directly associated with disposal operations determined by [the Commission] to be allowable.” The Act excludes from identification as “allowable costs” the costs of certain expressly listed activities and “any other costs determined by [the Commission] to be unallowable.” S.C. Code Ann. §48-46-40(B)(3) (Supp. 2006).

The Act entitles a disposal facility operator to recover an operating margin of 29%, which is applied to identified “allowable costs,” excluding certain “allowable costs” for taxes and the licensing and permitting fees which the operator is responsible to remit to governmental entities. S.C. Code Ann. §48-46-40(B)(5) (Supp. 2006).

The level of “allowable costs” and the statutory operating margin affect the amount of annual revenue that a disposal facility operator remits to the State of South Carolina. At the end of the fiscal year, the operator pays the South Carolina Department of Revenue an amount equal to the total revenue the operator had received for waste disposal services during the fiscal year, reduced by the operator’s identified “allowable costs,” reduced further by the 29% statutory operating margin on the “allowable costs” under the Act, and reduced further by payments that the operator made during the fiscal year for reimbursement of certain administrative costs which the Budget and Control

Board, the Commission, the State Treasurer, and the Atlantic Compact Commission (the “Compact Commission”) had incurred for the conduct of those agencies’ responsibilities in administering the Act. S.C. Code Ann. § 48-46-60(B) and (C) (Supp. 2006).

The Act provides that the operator of a low-level radioactive waste disposal site may apply to the Commission for adjustments in the levels of “allowable costs” which the Commission had identified for the previous fiscal year and for identification of costs which the Commission had not previously identified as “allowable costs.” S.C. Code Ann. §48-46-40(B)(4) (Supp. 2006). Upon disposition of the issues in an application, the Act requires the Commission to authorize the site operator to adjust its “allowable costs” for the current fiscal year to compensate the site operator for revenues “lost” during the previous fiscal year (that is, the difference between the level of “allowable costs” previously identified and the level of “allowable costs” identified upon approval of the application). Id.

Chem-Nuclear filed its Original and Amended Applications in this proceeding seeking to be compensated for the difference between the level of “allowable costs”, which we identified in Order No. 2006-328, and the amount of such costs that the Company actually experienced in the Fiscal Year 2005-2006 and for identification of Chem-Nuclear’s “allowable costs” for Fiscal Year 2006-2007. As in prior proceedings, Chem-Nuclear applied to be compensated only for those “allowable costs” incurred in Fiscal Year 2005-2006 where the actual costs were more than those that we had identified and approved in Order No. 2006-328. (Amended Application at paragraphs 10-14 and Exhibit A to the Amended Application).

This case represents the seventh annual proceeding in this Docket in which the Commission has considered the identification of “allowable costs” for Chem-Nuclear under the provision of the Act. See Order No. 2001-499, dated June 1, 2001; Order No. 2002-395, dated June 3, 2002; Order No. 2003-188, dated April 14, 2003; Order No. 2004-349, dated July 23, 2004; Order No. 2005-338(A), dated June 27, 2005; and Order No. 2006-328, dated May 30, 2006.

Upon receipt of the Company’s Original Application, the Commission’s Docketing Department directed Chem-Nuclear to publish a Notice of Filing, advising the public of the submission of the Original Application and of the manner in which interested persons might intervene or otherwise participate in this proceeding. Chem-Nuclear filed affidavits of publication which demonstrated its compliance with the instructions of the Docketing Department.

The Act specifies certain agencies to be parties of record in proceedings for identification of allowable costs before the Commission. Those parties are: the Budget and Control Board, the Executive Director of the Office of Regulatory Staff (“ORS”) and the Attorney General for the State of South Carolina. S. C. Code Ann. § 48-46-40(B)(9) (Supp. 2006). In addition, the Compact Commission and the South Carolina Department of Health and Environmental Control (“DHEC”) have the discretion under the Act to participate as parties. Id. Pursuant to the provisions of S. C. Code Ann. § 58-4-10(B) (Supp. 2006), the ORS represents “the public interest” in proceedings in this Docket.

On April 12, 2007, the Commission held an evidentiary hearing with respect to the issues in the Company’s Application. The Honorable G. O’Neal Hamilton,

Chairman, presided and Vice Chairman Moseley and Commissioners Clyburn, Fleming, Howard, Mitchell, and Wright were in attendance. Appearances were as follows: Robert T. Bockman, Esquire, represented Chem-Nuclear; Frank R. Ellerbe, III, Esquire, represented the Compact Commission; and C. Lessie Hammonds, Esquire, and Jeffrey M. Nelson, Esquire, represented the ORS; neither the Budget and Control Board nor DHEC were represented by counsel. The Attorney General did not appear or participate in the hearing. Duke Power and South Carolina Electric & Gas Company, which had intervened in this Docket and participated in some previous hearings, did not appear or participate in the hearing.

Chem-Nuclear and the ORS entered into a Settlement Agreement by which they resolved various issues raised in the Amended Application and during the audit which ORS conducted. The Settlement Agreement was submitted to the Commission at the hearing and is a part of the record as Hearing Exhibit No. 1. The Settlement Agreement included an attachment which consisted of the audit report prepared by ORS of its examination of Chem-Nuclear's books and records. Chem-Nuclear presented the evidence of one witness, James W. Latham. The record of this proceeding consists of the pleadings; the Commission's notices; the transcript of the oral testimony, consisting of 54 pages; and three (3) hearing exhibits, including two (2) post-hearing exhibits which the Company filed at the direction of the Commission.

II. DISCUSSION OF ISSUES

All of the issues relating to the identification of "allowable costs" for Fiscal Year 2005-2006 and for Fiscal Year 2006-2007 were resolved among the parties or were not

contested in the evidence or positions of the parties. Consequently, the Commission will discuss the issues in general to reflect our reliance upon the evidentiary record for the findings and conclusions in this order.

A. “Allowable Costs” for Fiscal Year 2005-2006

In accordance with the provisions of the Collaborative Review of Chem-Nuclear’s Operations and Efficiency Plan (“OEP”), which Order No. 2004-349 approved for use in these “allowable cost” proceedings, Chem-Nuclear’s application and its evidence separated costs into three (3) categories: fixed costs, variable costs, and irregular costs. As Order No. 2004-349 recognized, the OEP was valid for use as a “baseline for establishing a method for identifying “allowable costs.” Order No. 2004-349 at 17.

1. Fixed Costs for Fiscal Year 2005-2006

Chem-Nuclear separated its fixed costs for Fiscal Year 2005-2006 into several general categories: labor and fringe costs, non-labor costs, corporate allocation of general and administrative expense, equipment leases and support, depreciation, insurance, and those fixed costs for which the statutory operating margin was not applicable. The operating experience for that period resulted in total fixed costs of \$7,603,972 which were actually incurred. Since the total fixed costs which Chem-Nuclear actually incurred for 2005-2006 were less than the level of fixed costs anticipated in Order No. 2006-328, the Company did not propose any adjustment in the previously identified allowable fixed costs for Fiscal Year 2005-2006. The evidence in the record fully supports the identification of \$7,603,972 as fixed “allowable costs” for Fiscal Year 2005-2006.

2. Variable Material Costs for Vaults for Fiscal Year 2005-2006

The actual costs for the material costs for vaults are predicated on a number of factors, including the size and shape of waste packages and the number and size of vaults required for disposal. For Fiscal Year 2005-2006, Chem-Nuclear's actual costs for disposal vaults were \$1,610,066. There is no evidence in the record in opposition to the identification of that amount as the proper "allowable cost" for variable costs for vaults.

3. Variable Labor Costs and Non-Labor Costs for Fiscal Year 2005-2006

Order No. 2006-328 determined various categories of rates applicable to purchase, inspection, and placement of the following: disposal vaults, handling of the various classes of waste shipments, slit trench offload operations, customer assistance, and scheduling of waste shipments and maintenance of disposal records. According to the record, the variable Labor and Non-Labor rates are associated with several independent variables. Because the Company's actual variable labor and non-labor costs of \$653,140 experienced in Fiscal Year 2005-2006 were less than the amount identified in Order No. 2006-328, the Company has requested no adjustment in this category of costs for Fiscal Year 2005-2006.

4. Irregular Costs for Fiscal Year 2005-2006

Irregular costs include costs for projects that are nonrecurring annually or varying costs for projects which continue for more than a year. The record contains numerous descriptions of each project and the actual costs that Chem-Nuclear incurred for them in Fiscal Year 2005-2006. At the date of the issuance of Order No. 2006-328, not all of the irregular costs for Fiscal Year 2005-2006 were known and measurable. The evidence

here establishes that Chem-Nuclear incurred actual irregular costs for Fiscal Year 2005-2006 of \$570,484. That amount is uncontested by any evidence in the record.

B. Proposed “Allowable Costs” for Fiscal Year 2006-2007

Chem-Nuclear’s Application and the evidence in the record presented “allowable costs” to be identified for Fiscal Year 2006-2007, separated into the three cost categories that were submitted in the Collaborative Review of the OEP and adopted in Order No. 2004-349.

1. Allowable Fixed Costs for Fiscal Year 2006-2007

Chem-Nuclear proposed total fixed costs of \$7,859,163 to be identified as “allowable costs” for Fiscal Year 2006-2007. That amount was based on actual fixed costs incurred in Fiscal Year 2005-2006, with appropriate adjustments for inflation as the Commission has previously approved. The total fixed costs for Fiscal Year 2006-2007 include \$799,637 to which the statutory margin is not applicable. (Exhibit C to Amended Application). The record contains no evidence in opposition to the identification of \$7,859,163 as allowable fixed costs for Fiscal Year 2006-2007.

2. Allowable Irregular Costs for Fiscal Year 2006-2007

Chem-Nuclear described general categories of projects with estimated total costs of \$209,766, which it categorized as irregular costs for Fiscal Year 2006-2007. The record contains no evidence in opposition to the identification of \$209,766 as allowable irregular costs for Fiscal Year 2006-2007.

3. Variable Materials Costs (Vaults) Rates for Fiscal Year 2006-2007

For Fiscal Year 2006-2007, Chem-Nuclear proposed variable material cost rates for each category of waste received based upon the rates which we had approved in Order No. 2006-328 for Fiscal Year 2005-2006, as adjusted for an increase in the cost of concrete disposal vaults from Chem-Nuclear's supplier. There was no evidence of record in opposition to the proposed variable cost rates for disposal vaults.

4. Variable Labor and Non-Labor Rates for Fiscal Year 2006-2007

For Fiscal Year 2006-2007, Chem-Nuclear proposed rates for variable labor and non-labor costs. Those rates pertained to five (5) categories: vault purchase and inspection (per vault); ABC waste disposal (per shipment); Slit Trench Waste Operations (per offload); customer assistance (per shipment); and maintenance of trench records (per container). The rates were based on the rates approved in Order No. 2006-328, adjusted for inflation. There is no evidence of record in opposition to those rates.

III. FINDINGS AND CONCLUSIONS

1. The Public Service Commission of South Carolina is authorized and directed by S. C. Code Ann. § 48-46-40(B), et seq. (Supp. 2006) to identify allowable costs for Chem-Nuclear's operation of a regional low-level radioactive waste disposal facility in South Carolina. The facility is located in Barnwell, South Carolina.

2. Chem-Nuclear has operated the disposal site in question continuously since 1971 without interruptions. Undisputed amounts in Chem-Nuclear's accounts that will herein be identified and approved by this Commission as "allowable costs" for Fiscal Year 2005-2006 are included in Appendix A, which is attached to this Order.

3. Further, we approve and identify as “allowable costs” for Fiscal Year 2006-2007 the individual figures and the sum of \$8,068,929 in fixed and irregular costs. We approve the variable cost rates for Fiscal Year 2006-2007, as those costs and rates that are depicted in Appendix B, which is attached to this Order. The actual expense in the variable cost category will be dependent on the actual volumes and classes of waste received. The rates in Appendix B are appropriately documented in the record of this proceeding.

4. Chem-Nuclear shall continue to submit monthly reports of variable cost data to the Commission as required by Commission Order No. 2001-499.

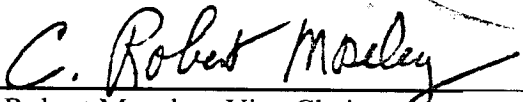
5. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



G. O'Neal Hamilton, Chairman

ATTEST:



C. Robert Moseley, Vice Chairman

(SEAL)

APPENDIX A – Order No. 2007-418
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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year Ending June 30, 2006

<u>Description</u>	<u>Allowable Cost</u>
Fixed Costs	
Fixed Labor and Fringe	\$3,066,244
Non-Labor Costs	\$1,207,525
Depreciation	\$216,810
Insurance	\$760,632
Equipment Leases and Support	\$386,732
Corporate G&A	\$1,203,161
Intangible Asset Amortization (Operating Rights)*	\$625,000
Employee Retention Compensation*	\$104,587
Legal Support*	<u>\$33,281</u>
Total Fixed Costs	\$7,603,972
Variable Costs	
Vault Costs	\$1,610,066
Variable Labor and Fringe**	<u>\$653,140</u>
Total Variable Costs	\$2,263,206
Irregular Costs	
Total Irregular Costs (see page 2 of 2)	<u>\$570,484</u>
Total Allowable Costs	<u>\$10,437,662</u>

* Not subject to statutory operating margin

** Categories of costs include: Vault Purchase and Inspection, ABC Waste Disposal, Slit Trench Operations, Waste Acceptance and Trench Records.

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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year Ending June 30, 2006

Irregular Cost Item	Labor & Fringe	Non Labor	Total Cost
Irregular components	\$1,025	\$40,257	\$41,282
Various Trenches	\$88,857	\$137,603	\$226,460
Decontamination and Corrective Actions	\$22,148	\$2,593	\$24,741
Deep Well & Monitoring Well Abandonment	\$8,253	\$25,424	\$33,677
Site Engineering and Drawing Updates	\$46,778	\$16,650	\$63,428
Miscellaneous Irregular Projects	\$6,727	\$210	\$6,937
License Renewal and Appeal Costs	\$64,671	\$2,063	\$66,734
B&CB support	\$898	\$0	\$898
Severance Pay	\$94,492	\$0	\$94,492
Other Irregular costs	\$4,226	\$7,609	\$11,835
<u>Total Irregular Costs</u>	<u>\$338,075</u>	<u>\$232,409</u>	<u>\$570,484</u>

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Chem-Nuclear Systems, LLC
Allowable Costs
Fiscal Year Ending June 30, 2007

<u>Description</u>	<u>Allowable Cost</u>
Fixed Costs	
Labor and Fringe	\$3,170,000
Non-labor Costs	\$1,232,000
Depreciation	\$225,000
Insurance	\$787,254
Equipment Leases and Support	\$400,000
Corporate Allocation (Management Fee/G&A)	\$1,245,272
Intangible Asset Amortization (Operating Rights)*	\$625,000
Employee Retention Compensation*	\$99,637
Legal Support*	<u>\$75,000</u>
Total Fixed Costs	\$7,859,163
Irregular Costs	
Trench Construction	\$60,000
License Appeal	\$20,000
Corrective Actions	\$14,766
Site Engineering Drawings	\$60,000
Irregular Components	\$40,000
Miscellaneous	<u>\$15,000</u>
Total Irregular Costs	<u>\$209,766</u>
Total Fixed and Irregular Costs	<u>\$8,068,929</u>
Variable Costs	
<u>Variable Labor and Non-Labor Rates</u>	
Vault Purchase and Inspection (per vault)	\$71.72
ABC Waste Disposal (per shipment)	\$1,009.56
Slit Trench Operations (per slit trench offload)	\$9,975.32
Customer Assistance (per shipment)	\$264.67
Trench Records (per container)	\$56.43
<u>Variable Material Costs (Vault Costs)</u>	
Class A Waste (per cubic foot)	\$35.00
Class B Waste (per cubic foot)	\$36.72
Class C Waste (per cubic foot)	\$36.15
Slit Trench Waste (per cubic foot)	\$128.07

* Not subject to statutory operating margin